NEDBANK PRIVATE WEALTH
SINCE 1834

IT FEELS LIKE THE PERFECT STORM – BUT HOW YOU REACT WILL FUNDAMENTALLY AFFECT YOUR WEALTH

The pilot's famous answer when asked about his job, 'Hours of boredom punctuated by brief moments of terror', applies perfectly to investing. Put differently by former Wall Street Journal columnist, author and investor, Morgan Housel: 'The majority of your lifetime investment returns will be determined by decisions that take place during a small minority of the time.' Now is one of those times because we are living through a confluence of events, globally and locally, that has caused both extreme volatility and declines in market prices. In this investment update we explain these events, and how our portfolios are positioned to give you peace of mind, and to help you make the right decisions despite the current noise.

From chaos comes opportunity

1 **Our investment philosophy is long-term, well-considered**
This means that despite the recent extreme price volatility in global markets, the intrinsic valuations of quality businesses in which we invest offer opportunities for prudent, patient investors. The price at which you buy shares has a crucial effect on future long-term returns.

2 **Portfolios are well-diversified and have been conservatively positioned for some time now**
Portfolios include a significant allocation to offshore assets, which has offered diversification, access to higher growth and risk-adjusted returns, not just protection against rand weakness. We have, however, also allowed for a scenario where we could see a gradual improvement in South African assets over time because much bad news has already been priced in. Within our equity allocations we have downside protection in place and have also retained a meaningful allocation to counters with offshore earnings, favouring those with high-quality balance sheets and less debt.

ASSET CLASS	U/WEIGHT	NEUTRAL	O/WEIGHT
GLOBAL			■
SA EQUITIES	■		
EQUITY LINKED NOTE		■	
SA PROPERTY		■	
SA CREDIT/PREF SHARES		■	
SA BONDS			■
SA CASH	■		

Source: Nedbank Private Wealth

The confluence of global and local events that is causing volatility:

1 **The Coronavirus is feeding uncertainty.**
The outbreak of the Coronavirus continues to dominate headlines. We will continue to follow this to understand the impact on global growth, supply chains and financial markets, with an emphasis on the impact for South Africa and valuations.

2 **Weak global growth affects South Africa.**
Lower global growth prospects have permeated through asset prices, including the oil price which has seen a drop to multi-year lows. This is negative for South Africa, which is a small, open economy with an orientation towards commodities. Although it remains extremely difficult to quantify the impact, financial markets have started pricing in some worst-case scenarios. In this type of environment, indebted countries and leveraged companies are vulnerable. As an emerging-market country, the rand and local asset prices will also be impacted by global sentiment and may therefore continue to be quite volatile.

3 **South Africa remains in need of meaningful reforms and intervention.**
In South Africa the longer-term challenges are well-known, and growth has remained weak. Asset prices have reflected this.

How have the above affected our views and your portfolios?

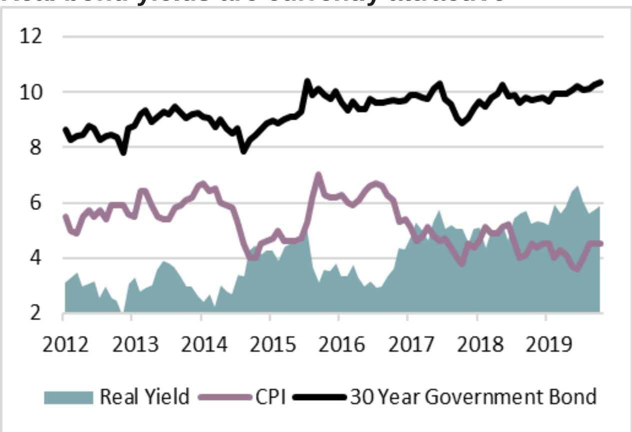
1 **We have identified valuation and quality opportunities**
Repricing of risk assets for a difficult environment in South Africa has, however, allowed us more recently to add incrementally to asset classes, informed by valuations, which will be the primary driver of long-term returns. Portfolios have built up a modest overall overweight exposure to equities, where valuations have allowed us to invest in quality businesses that may have been too expensive in the past. Our allocation to equities is made up of direct exposure (where we are underweight our benchmark for equities), but also includes an allocation to hedged equities where the downside has been limited. This allows us participation in opportunities the market may present, while still protecting portfolios during the market drawdowns. Our net overall exposure is therefore appropriately sized and leaves us well-positioned during these volatile times.

Top ten equity holdings	
Naspers	13,6%
Reinet	6,3%
Prosus	5,9%
BHP	5,4%
Remgro	5,3%
Bidcorp	4,9%
AB Inbev	4,3%
MTN	4,1%
Standard Bank	4,0%
Bidvest	3,6%
Total	**57,3%**

Source: Nedbank Private Wealth

2 **We have overweight local bonds, with exposure to defensive asset classes like preference shares and cash.**
Portfolios have also built an overweight position in local bonds over time, allowing us to lock into yields, which recognises a tough fiscal backdrop, but offers very attractive rewards given the local inflationary dynamics. This positioning should also benefit from global central banks lowering interest rates as they stimulate their economies. We remain conscious of risks and have therefore retained exposure to defensive asset classes such as preference shares and cash.

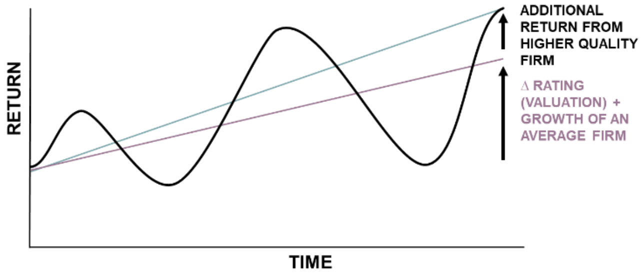
Real bond yields are currently attractive



Source: Nedbank Private Wealth

3 **We are being cautions in our assessment of balance sheets because financial leverage becomes challenging during uncertain times.**
The shape of any recovery will remain uncertain until we get confirmation of a stabilisation of Coronavirus cases, monetary (even lower interest rates) and fiscal interventions (economic support from governments). Until then, we expect activity indicators and estimates to reflect the high level of uncertainty and volatility to continue as data points confirm the impact of disruption. We have been cautious in our assessment of company balance sheets, as we believe that financial leverage becomes increasingly challenging when companies face a difficult operational backdrop.

Quality matters in tough times



Source: Nedbank Private Wealth

Summary
We are all human, so while it is tempting to make emotive and rash decisions, we urge you to remain calm and speak to your wealth manager before acting on the latest headline news.

Several anticipated global vulnerabilities have been highlighted by the Coronavirus.
We started 2020 expecting some stabilisation in global growth after the turmoil in manufacturing caused by the trade wars. But we also cautioned that there was ample room for disappointment, considering elevated valuations and global fault lines such as high government and corporate leverage. Nobody expected the external shock to present itself in the form of the Coronavirus.

We have an experienced team and a proven investment philosophy that we will continue to apply regardless of the uncertainty, for your long-term benefit.
We will continue to look to take advantage of the long-term opportunities that this volatility may bring. We continue to seek balance and diversification in the portfolio, both at an asset allocation and equity level, to benefit from a range of scenarios.

It is precisely at times like these that we aim to help you with our global insights, international presence, well-diversified portfolios and wealth management expertise.